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1936

Economic Conditions
Governmental Finance
United States Securities

New York, July, 1936

General Business Conditions

THE month of June has been another period of good business, and on the whole of strengthened optimism with respect to the Summer and Fall outlook. Threats to the continuation of the upswing have appeared in the steel labor situation and the drouth in the grain states, but undoubtedly the good trade figures and the buoyancy of the markets have made the stronger impression upon sentiment. With industrial reports indicating that second quarter earnings will be the best since the beginning of the depression, stocks have rallied. Commodity prices also are stronger, not only because the drouth has raised farm prices but because of good demand by the industries for raw materials. Likewise, prices of some manufactured goods are higher.

In most industries production and sales figures have held up better, in comparison with the Spring peak, than is usually expected. As compared with last year, wide gains continue the rule. The railway freight movement is the largest of the year, and consumption of electricity the highest ever reached. The extraordinary demand for automobiles shows no slackening, and throughout June the factories have been turning out 100,000 cars weekly. Steel ingot production has averaged around 70 per cent of capacity, which is as good as the May level.

It is plain that the "Summer recession" in industrial activity is late in starting, and there are many indications that it will not become pronounced until the automobile factories begin to curtail drastically in preparation for the change to new models. When this will occur is not yet certain. The manufacturers have been forehanded in their tool buying and other preparations for the changeover, but of course will make the most of the demand for this season's cars while it lasts.

The steel mills entered July with heavy unfilled orders, and are not expected to reduce operations during the month by more than 10 per cent. Part of the bookings represented advance buying, anticipating the price increases which took effect on new orders at the end of June, also the strike threat. As shipments on these orders are completed and automobile takings decline, steel operations will of course recede. However, the machinery, container and many other industries using steel are active, and are maintaining consumption at undoubtedly the best rate since early in 1930.

Trade and the Bonus

In the wholesale markets June falls between seasons, but furs, shoes and other Fall lines opened early are selling freely and more buyers were in the markets at the end of the month than usual. Along with automobile sales, general retail gains, increases in travel bookings and similar items show that consumers are still in the mood to make up for stinting themselves during the depression. Sales of department stores in May were 12 per cent over last year, of variety chain stores 15 per cent, and of the two largest mail order houses 30 per cent. In June also department store sales have run steadily ahead. In the four weeks ended June 18 Sears, Roebuck & Co. had a gain of 26 per cent.

These sales confirm the indications that people have more money to spend than at any time in six years. Factory payrolls in May were 16 per cent above last year, and farm income 10 per cent higher. The Department of Agriculture predicts that the improvement in demand for farm products during the second half-year will maintain income from marketings above last year, although Government payments may not be as large.

Naturally the payments to the veterans have increased expenditures on consumer goods, although the spurt after June 15 was less pronounced than many expected. Evidently the effect will be spread over a considerable period. Not only have the mechanics of payment required time, but according to preliminary surveys a larger share of the money will be used to pay debts than for any other single purpose. This puts the purchasing power into use more

slowly than direct purchase of goods; in fact, if the funds are used at once to retire bank debt there is no increase in buying power. Moreover, according to preliminary figures the percentage of bonds cashed seems to be less than expected, and some of the money is being saved or used to replace savings which had been spent earlier. All these influences diffuse the stimulus of the bonus, but it is certain that its effects, both immediate and secondary, will be felt for some time.

The consumer goods industries in the main are doing well, though not uniformly. Cotton shows the most marked improvement of the textiles. Cotton goods sales have exceeded production for several weeks, and the Summer decline in mill operations is likely to be small. Manufacturing margins, which were unprofitable, have improved. The whole cotton situation has turned for the better, chiefly because consumer and industrial demand has been good, distributors' stocks were small, and the start of the cotton crop is none too favorable. The sales out of the Government stocks have relieved the tightness in the spot cotton market, and given the industry the necessary confidence to go ahead.

The rayon yarn situation is strong, and prices have been raised. Rayon fabric sales have been heavy, 45 per cent over last year in May, but at narrow margins. Silk, woolen and hosiery business is in less satisfactory volume.

The use of rayon staple fibre, from which yarns are spun for mixing with cotton and wool, and competing chiefly with light weight woolens, has had an extraordinary growth, and prices were reduced at the beginning of June. This is another illustration of industrial progress. New products, expanding rapidly and reduced in price as their use increases, compete with the old, but the net effect is to give the consumer a wider choice, to keep prices down, and increase total business.

Momentum of the Recovery

Reports of this kind indicate that the upswing, though it has been running twelve months with only a moderate recession last Winter, gives no sign of running down of itself, other than the seasonal interruptions already mentioned. The country is working below its productive capacity, and people still have wants unsatisfied, and if the recovery is kept moving with all the elements in balance and without interference, it can go on indefinitely.

There is no reason to think that the improving tendency in economic relationships has encountered any serious reversal. The durable goods industries, which are still depressed, show greater relative gains than others, and thus help to round out the improvement. In the light industries facts already cited suggest that distribution has kept up with production and that on the whole there is no threatening accumulation of inventories.

The advances noted among prices of manufactured goods in many cases represent a change from unprofitable to profitable operations, either of the manufacturer or of those who produce the materials he uses, and this change is necessary to recovery. However, where the price advances are due to increased production costs they are unfavorable, and unquestionably the business improvement will be hampered if developments in the Fall accelerate this trend.

The drive to unionize the steel industry may lead to the waste and strife of a great industrial disturbance, the cost of which will have to be borne in the end by the public; or if the strife is averted the steel industry may nevertheless have to accept higher costs of production. Iron Age states that the price advances recently announced undoubtedly anticipated wage increases. Of course the higher steel prices will raise costs in a good many lines. The wage increases will be all to the good for steel labor, but what of the users of steel who in last analysis will have to pay them? Are they also entitled to an increase in income, and where will it come from?

It is a mistake to believe, despite the seeming evidence available, that the business situation is strong enough to support a general rise of industrial costs and prices. The fact is that business is still disturbingly dependent upon Government spending, which itself is evidence of unsoundness. The urgent need is to get it upon its own feet, by restoring financial soundness, confidence in the future, and the equilibrium between costs and prices that will revive self-supporting trade. It is idle to point to the farm improvement as denying the need of lower industrial costs. The increased farm income likewise includes Government payments, and a great many people who normally draw their living from the farms are being maintained on relief.

The Drouth Threat

A second possibility of a setback to Fall trade is seen in the dry weather over the middle West, particularly in the northern Great Plains, which has seriously affected the outlook for small grains. The Weather Bureau on June 24 stated:

> Since the first of April, or for nearly 3 months, North Dakota has had only about one-third of normal rainfall, eastern Montana and northern Minnesota less than one-half of normal, and other northwestern sections only slightly more. In addition, some interior States, such as Arkansas and much of Missouri, have had less than half the normal since the beginning of April. Since May 1, other States have had even greater shortages, such as Tennessee, with approximately 28 per cent of normal in the last 7 weeks; Kentucky, about the same, and other Ohio Valley States less than half the normal.

This deficiency of rainfall puts Spring wheat especially in a perilous situation. Failure of the crop would hurt business in the North-

west, and although the higher prices received by the wheat growers of Kansas and other states would probably maintain the total of farm income, the effects on the general business situation would be unfavorable in many respects. If Spring wheat turns out below 150,000,000 bushels, or of poor quality, imports of Canadian wheat will again be necessary.

When the crops were reduced by drouth in 1934, farm prices and income were at a great disparity with industrial prices and income, and reserves of farm products were abundant. Higher prices therefore raised the agricultural income, reduced the disparity with industrial prices, and helped to balance the business situation. However, there is no longer a possibility of raising farm purchasing power through scarcity, for reserves are exhausted and price advances are offset by the smaller quantity for sale. On the other hand, the higher prices paid by consumers, including farmers, would increase the cost of living, diminish the purchasing power available for other goods, and interpose an obstacle to recovery. Unquestionably rising food costs this Fall would add to the labor troubles threatening the industries.

The most serious possibility for general business is that the drouth may affect the corn crop. It has already set back the oats crop in many places, and if the corn yield should be seriously reduced feed supplies might fall short of needs. This would affect farm purchasing power directly. The hog growers, dairymen and poultry raisers have given strong support to business this year. They have increased their production, enjoyed a good market for their products, and sold at prices that were very favorable in comparison with the price of feed. Already the dry weather has affected them unfavorably, through the poor condition of their pastures. If in addition they have to pay materially higher prices for feed their net income may be reduced, whereas the incomes of the feed growers, who would have less to sell, would hardly be raised to an offsetting degree.

Not much permanent damage has yet been done to the corn crop, and the start was favorable, but the situation is important.

The Building Situation

In considering the prospect for continuation of the business improvement, the outlook for building naturally assumes great importance. The construction industry is one of the largest in this country, including in 1930 (the census year) 3,000,000 workers in direct construction alone; and it is also one of the few which are still severely depressed. In the worst year, 1933, building activity was 81 per cent below the pre-depression high. Estimating the 1936 figures, it has recovered one-fourth of the loss, but the total this year will be perhaps 60 per cent below the peak. Looking ahead, it is not too much to say that the chief hope of further business gains in 1937 rests with building.

Although contracts awarded during the first half of 1936 were over 75 per cent larger than last year, some disappointment has been expressed on the ground that the gains since the current business upswing began last July have been less than hoped for; also because the seasonal rise in the Spring, as measured from last Winter's figures, was not fully normal in percentage. As to the first point, whether expectations are disappointed or not depends upon what the expectations were. Second, the December base from which the Spring rise was measured was abnormally inflated by the award of Government contracts to get under the December 15 deadline.

Private Building Expanding

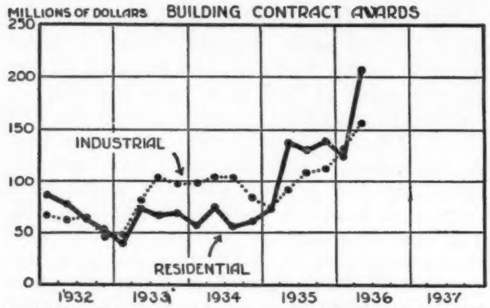
While total contract awards are of course the important figures in measuring the contribution of building to general business, they do not reveal all that it is desirable to know about the building trend. Specifically, they do not show the chief development of the present year, which is the rising importance of private enterprise in construction, and the diminishing part played by public funds. The following table gives the contracts in each classification since 1932, and it will be seen that whereas in 1934 public money was supporting 63.2 per cent of construction, and private enterprise only 36.8 per cent, the proportions in the second quarter of this year changed to 46.0 and 54.0, respectively:

	Total Contract Awards*	Percentage Publicly Financed	Percentage Privately Financed
1932	$1,351,159,000	56.8	43.2
1933	1,255,708,000	54.4	45.6
1934	1,543,101,000	63.2	36.8
1935	1,844,545,000	54.6	45.4
1936, 1st quart.	545,871,000	57.5	42.5
1936, 2nd "	650,701,000	46.0	54.0

*37 Eastern States; F. W. Dodge figures.

This of course is a desirable change. It shows that conditions have become more favorable for private enterprise, that more people who want new homes are able to have them, and that the area in which construction is becoming profitable is therefore enlarging. The commercial buildings erected are expected to be productive, and the cost of private housing is borne by those directly benefited; whereas public building for the most part lays a burden on the taxpayer, and in some cases competes upon a subsidized basis with private construction. Moreover, it is a strain on public budgets.

Private building goes into residential and industrial channels. The accompanying chart, compiled from figures of the F. W. Dodge Corporation, shows the quarterly totals of residential and industrial building beginning



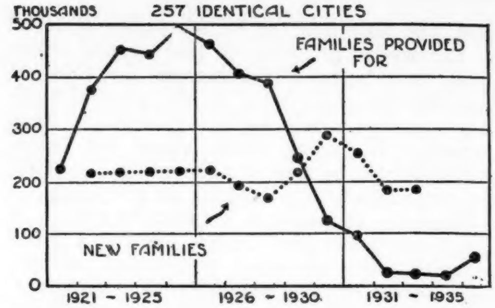
in 1932, the second quarter of 1936 being partly estimated. The latest quarter represents the greatest activity for both groups in five years.

Residential building in the first half of this year gained 56 per cent over the same period of 1935. About 60 per cent of this expenditure was in private dwellings, 18 in apartments, and the remainder in developments, hotels, etc. Industrial building increased 79 per cent. It is composed of roughly one-third factory building, one-third public utility (including some financed by public funds), and the remainder in miscellaneous commercial structures. Industrial building spurted in 1933, due chiefly to construction of beverage manufacturing plants upon repeal of the Prohibition Amendment. The rise since the beginning of 1935 has been much more wide-spread, with major expenditures upon iron and steel, petroleum and food products plants, more recently mineral extraction, chemicals, paper and pulp, and to a lesser degree textiles and vehicles. The gain is significant not only as building improvement; it shows how new products and new industrial methods require capital expenditure, and also indicates an expectation of expanding demand for goods of many kinds.

Replacements and New Housing Needed

Undoubtedly the chief reason for expecting building gains to continue is that people during the depression stinted themselves in housing more than in most other wants, through doubling up, postponement of marriages, and use of houses beyond their normal life. The situation in effect parallels that of the automobile industry two or three years ago, when the number of cars registered had dropped 10 per cent from the peak and the average age of cars in use was climbing steadily. As people regained their purchasing power they began to fill their wants for automobiles, and the industry has had a sensational improvement. There is no reason to doubt that residential construction will follow the same course and for the same reasons, as rapidly as the economic factors involved become favorable.

A measure of the deficiency in housing replacement during the past six years is provided by the Bureau of Labor Statistics, which compiles figures showing the number of families provided for in new housing in 257 cities which



include more than a third of the country's population. The Bureau also gives population figures, from which the number of new families added to the population each year may be calculated.

These figures are charted on the accompanying diagram. They indicate that at the start of the depression housing needs were well satisfied, doubtless more than satisfied. But for the past six years the number of families provided for has been far less than the increase of population; compared with the peak of 491,000 in 1925, only 22,000 units were built in 1934 and 56,000 in 1935. Allowing for an increase in 1936, there is evidently room for at least three or four times as much housing construction as is being done this year, merely to bring the housing curve up to the population curve. Moreover, the figures make no allowance for fire losses, demolitions and the obsolescence of houses in use. During the three years when construction was smallest these losses probably exceeded the number of new homes built.

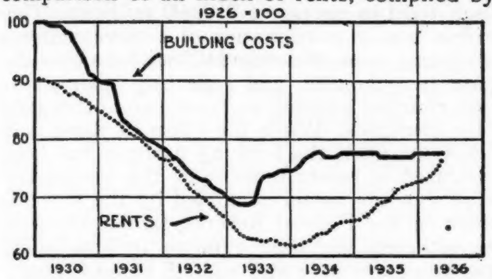
The marriage rate declined during the depression, dropping to 7.87 per thousand in 1932 from 10.14 in 1929. Catching up with marriages increases the demand for housing. The migration of population from farms to cities, which was reversed in 1930 to 1932, was resumed in 1933, and requires new housing.

The increase in the average age of the population is an influential factor. Dr. O. E. Baker, Senior Economist and expert on population statistics for the Bureau of Agricultural Economics, has supplied us with a striking picture of the effects of this factor upon the future demand for housing. He writes:

> During the next decade or two, the wave of births which reached the crest in 1921, and a secondary crest in 1924, will result in a further great increase in house construction. This year there are more children 15 years of age than of any other age, many of whom are seeking work at an unfortunate time. Ten years hence there will be more people 25 years of age than of any other single year of age, and many of these will have married or expect soon to marry. Fifteen years hence the crest in marriages should be reached. There will almost certainly be by 1950 about 10,000,000 more "heads of families", to use the Census phrase, than there were in 1930. This suggests that 10,000,000 more houses or apartments will be needed if the housing standards of 1930 are maintained, even with no allowance for obsolescence or demolition.

Obviously one of the economic factors governing home construction is the relation of rents

to building costs, i.e., whether it is cheaper to build than rent. The third chart presents a comparison of an index of rents, compiled by



the National Industrial Conference Board, with an index of building costs, compiled by the American Appraisal Company, both based on 1926 as 100. The rise in rents has been uninterrupted from the low point in January, 1934, and particularly sharp in recent months, and for the first time the gap between rents and costs is almost closed. Thus there is greater incentive to home building than heretofore in the depression.

Fewer "distressed" houses are coming on the market this year; the number of foreclosures in the first four months of 1936 was 48,817 compared with 66,133 last year.

Cycle Has Turned Upward

All the factors indicate that the cycle of building has made the upward turn. How rapidly it advances will depend of course upon general economic conditions, but as people regain purchasing power and satisfy needs which they have considered more pressing, they will want more homes and better ones. The city of Detroit supplies an example of the influence of industrial improvement upon real estate. As the automobile industry has put people back to work rents for moderate priced homes have risen sharply, and a scarcity has developed. This is leading to more building this year, and probably even more in 1937.

Great Britain has had a great residential building boom which has been the chief factor in her domestic recovery during the past four years. Sir Kingsley Wood, Minister of Health, announced on June 16 that the number of houses built in England and Wales since the World War had passed the 3,000,000 mark, which is one-half of the number in existence before the war. Nearly half of these houses were built in the last five years. Space forbids an analysis of the complex influences in this building improvement, but the London Economist considers the increased confidence and improved economic position of the mass of consumers as the major cause. With due allowance for the decline in the mortgage rate of the building societies, for a reduction of 10 per cent in construction costs, and for state subsidies (which were abolished on all but slum projects in 1933), the Economist concludes that these influences would have been futile without the increased purchasing power of the masses, "and that in turn is due to the great reductions in the prices of food and clothes."

In this country also the wage income of laborers and the cash income of farmers has increased substantially more than the cost of living. This represents an increase in buying power which is available for the purchase of automobiles, household equipment and finally housing. When it is expended on building it will give employment and income to construction workers, illustrating the cumulative flow of purchasing power through the economic system that takes place as the elements of the system come into equilibrium.

Money and Banking

Government fiscal transactions, aggregating a cash and paper turnover considerably in excess of $5 billions, were dominating factors in the money market during June. Major operations of the Treasury included the refinancing of $687 millions of Treasury notes maturing June 15 and $364 millions of notes maturing August 1, and the raising of new money to provide for cashing of soldiers' bonus bonds, of which approximately $1,600 millions were delivered to veterans on the 15th. For the purpose of meeting maturities and raising new funds, the Treasury offered somewhat over $2 billions of new securities in amounts and on terms as follows: for cash, $600 millions, or thereabouts, of 15-18 year 2¾ per cent bonds at par, and $400 millions, or thereabouts, of five-year 1⅜ per cent notes at par; additional bonds and notes sufficient to accept all subscriptions for which June 15 and August 1 maturities might be tendered in payment.

The new offering of Treasury securities was notable in several respects. It was stated to be the largest peace-time financing in the history of the Government, and at the lowest rates of interest for comparable maturities, excluding, of course, the old currency bonds. Secretary Morgenthau, in commenting upon the offering, pointed out that in the December quarterly financing of last year, 10 to 12-year 2¾ per cent bonds and five-year 1½ per cent notes were offered, while in the March quarterly operation, the maturity of the 2¾ per cent bonds had been increased to 12 to 15 years, with the five-year note remaining at the same interest rate. Despite the large amount and low coupon rates, the new issue was heavily oversubscribed. Books closed on the cash issue after one day with total subscriptions above $7 billions, necessitating drastic rationing of all subscriptions in excess of $5,000. Exchange subscriptions were accepted for three days only, during which period 90 per cent of the maturing issues were tendered.

An additional feature of the reception accorded the new issues was the marked preference shown for the longer maturity, cash subscriptions running 1½ to 1, and exchange subscriptions 14 to 1, for the bonds against the notes. This tendency to favor the longer dates, first noted in connection with the March quarterly financing, is a reversal of the trend prior to this year. Evidently investors are becoming more reconciled to low yields, partly because they have to be and partly no doubt because they tend to get used to them as time passes. With huge quantities of funds awaiting investment, hundreds of millions of dollars of high coupon bonds being called, and negligible returns in the short-term market, institutional and other investors in need of income have been under strong pressure to overcome their reluctance with respect to long-term commitments.

Decline in Excess Reserves

As had been anticipated, member bank reserves dropped sharply over the June period of Treasury financing. During the week ended June 17 withdrawals from the market on account of tax collections and Treasury bond and note subscriptions totaled nearly a billion dollars, lifting Government balances in the Reserve Banks to a new peak of $1,421 millions. During the same period currency in circulation, due to cash requirements of the bonus, increased $111 millions to $6,048 millions, a new high record save for the banking holiday in 1933. This combination of demands — Government withdrawals and circulation needs—made heavy drafts upon member bank reserves. Notwithstanding certain minor offsetting factors, including gold imports, actual reserves dropped $939 millions and excess reserves $910 millions, the latter receding to $2,040 millions, the lowest since April, 1935, and a decrease of approximately $1¼ billions from the December, last, peak of all time.

With disbursement by the Government of accumulated balances, and redeposit of currency called forth by the bonus, recovery of bank reserves is to be anticipated. Already by the 24th excess reserves had risen $400 millions to $2,440 millions, mainly because of net Treasury disbursements, plus continued gold imports. This was in spite of a further rise of $125 millions in the crest of the currency wave to $6.173 millions. It is clear that progress in restoring reserves will be conditioned in large measure by the rapidity of Government spending, including bonus bond redemptions, and the effect of such spending upon the circulation. That considerable further recovery of reserves is due seems to be assured by the fact that on the 24th the Treasury had on hand in the Federal Reserve Banks unspent balances amounting to $929 millions.

Of greater significance than the foregoing transactions from a money market standpoint was the receipt during the month of additional gold imports of over $215 millions, which raised the country's monetary gold stock to a new high total in excess of $10,600 millions. This inflow was in continuation of a movement aggregating approximately $400 millions over the past two months, and reflecting mainly the uncertainties existing in France and other gold bloc countries. While the effect of these gold additions upon the banking position has been obscured in recent months by the abnormally high average balances carried by the Government in the Federal Reserve Banks, the gold nevertheless has been a factor in broadening the monetary base and adding, at least potentially, to the volume of excess bank reserves. Counting the Government deposits carried in the Federal Reserve as only temporarily lost to the market, total potential excess reserves as of June 24 were in the neighborhood of $3,250 millions (after allowing for reserves required of commercial banks against such deposits). This was close to the peak of $3,300 millions reached last December and, indeed, would have exceeded that peak but for the sudden demand for currency in connection with the bonus which is expected to subside with the high point of bonus spending.

Expansion of Member Bank Credit

The expansion of member bank credit continued during June, and total loans and investments of weekly reporting banks in 101 cities throughout the country reached the highest point since May, 1931. For New York City reporting banks the total on June 17 was the largest on record. The increase of bank credit during the month was caused principally by increased holdings of United States Government direct and guaranteed securities (including subscriptions to the new issues), the total of which for the banks in 101 cities reached a new peak of $10,751 millions, comprising 47 per cent of all loans and investments. Investments in other securities increased somewhat during the period.

A month ago in these pages we drew attention to the recent reversal of the downward trend of bank loans as distinguished from investments. Between February and the first half of June the total loans of the reporting banks increased about half a billion dollars, the first sign of an upturn since 1933. Of this increase, about half was in loans secured by stocks and bonds and about half was in unsecured loans, including commercial borrowing. Loans on real estate, it is interesting to note, have shown almost no change over the past year, notwithstanding the broadened powers for such lending conferred by the Banking Act of 1935. While the increase of bank loans thus far recorded is small in relation to the tremendous quantity of bank funds available, it is noteworthy as suggesting the beginnings of a re-

vival in the demand for bank credit for speculative and business purposes. Certainly such a movement has been long overdue, considering the activity of business and rise of security prices.

Trend of Interest Rates

That the foregoing huge demands of the month, including cash requirements of the bonus, could be financed without affecting interest rates was evidence of the enormous reserve resources of the money market. Yields, to be sure, on short-term Treasury bills stiffened a trifle, accompanying a stepping up of the weekly volume of sales from $50 millions to $100 millions during May and most of June, in preparation for the bonus; but offsetting this were the extremely liberal terms accorded the Treasury in its quarterly financing, as well as the low basis upon which other prime financing was done during the month. Thus, an issue of $83 millions Federal Land Bank 3s of 1956 (callable 1946) priced at 100¼ to yield 2.97 per cent marked a new low basis for bonds of this description, comparable offerings of Land Bank 3s having been sold last December at 98¾ and in April at 99½. The new issue, which, like its predecessors, was for the purpose of retiring higher coupon bonds, was heavily oversubscribed despite its low rate.

Nor were the terms of corporate financing suggestive of any trend towards greater liberality to investors. The flood of new issues for conversion purposes continues, with 3¼ per cent coupons now a commonplace of the market. During the month an offering of $15 millions 3¼ per cent 30-year first mortgage bonds of the Potomac Electric Power Company at 104, to yield approximately 3 per cent, established a new low water mark for yields in the corporate group. Previously the low record had been held by the $85 millions Standard Oil Company of New Jersey 3 per cent debentures sold in May at 98 to yield slightly over 3 per cent.

In summarizing the money situation, mention should be made of the recovery of gold bloc exchange rates, shutting off further purchases of gold for shipment to this country and leading to substantial reductions in French and Dutch bank rates. The rally followed renewed evidence of French determination to defend the franc, including regulations requiring French nationals to declare their holdings of capital held abroad. These indications of a greater disposition in gold bloc countries to control gold movements has a bearing upon the monetary position in this country in that gold shipments have been the main factor in building up and maintaining excess reserves here. Probably, however, there is much hoarded gold in London that would be transferred into dollars with establishment of increased confidence in this currency.

Who Owns the Wealth?

Is it true that a concentration of wealth is rapidly going on in this country, that the profits of large business have been increasing, and that the results of industrial progress are monopolized for the benefit of a few? Assertions of this kind are commonly made, and undoubtedly are believed by many people. Evidently the belief results in antagonisms, disorders and waste, seriously impairing the efficiency of the system.

For many years statements varying considerably, but to the effect that 2, 3, 4, or up to 10 or 15, per cent of our population owned approximately 90 per cent of all the wealth in the country, have been in common circulation. Actually, little definite information as to individual property-holdings or incomes was available until late in the 19th century, when census inquiries were gradually extended.

Early attempts to definitely calculate wealth-distribution were based upon certain probate records in Massachusetts and elsewhere, from which were deduced estimates that the top 2 per cent of property-owners possessed 50 to 60 per cent of all wealth, the next 18 per cent of well-to-do persons about 30 per cent of the wealth, and that the remaining 80 per cent of property-owners held only 10 to 20 per cent of the total wealth. These calculations related only to probated estates, but were generally applied to the total population. The information was scanty and subject to many qualifications. Furthermore, the estimates and arguments based upon it were defective and erroneous. They have been completely superseded by the official information now available, particularly from the bureau of the census and the bureau of internal revenue.

Willford I. King, then an instructor in statistics at the University of Wisconsin, now a professor of economics in New York University, in 1915 brought out through Macmillan his "Wealth and Income of the People of the United States," the most instructive work on the subject to that time. In 1921-22 he participated in the preparation of the two-volume work, "Income in the United States," published by the National Bureau of Economic Research, Inc., which was organized at that time as a non-profit organization for impartial economic research. In 1930 the National Bureau brought out "The National Income and Its Purchasing Power," also by him. Professor King is one of the most competent authorities on the subject, and we name his works for reference.

In his first book Professor King pointed out the inadequacy of the probate records, as evidence of the distribution of wealth among living persons. The larger part of the book was devoted to the distribution of income, which is more important than the distribution of

estates or of recorded property-rights. Vast amounts of wealth are distributed daily, and are constantly being consumed, which never appear in probate records. He emphasized the distribution of wealth through the exchange of services, which is the master principle of the economic system. He showed that a large part of the values exchanged in trade and which make the standard of living, consists of "services" rather than tangible goods. For example, he said:

> We do not purchase a street car line in order to enjoy the service of a street car—we purchase the service as we desire it; we often rent a house in which to live and even a piano by which to be entertained. In these cases, we receive the temporary services only, the title to the commodity, and hence its remaining services, resting in some other person.

He pointed out that the real distribution of the proceeds of industry takes place in the form of goods and services for consumption or use, and that the productive capacity of all individuals is not the same; that some contribute more to the amounts distributed than others do; also that the ownership of property does not mean that no one but the owner derives benefits from it. He referred to the Ford ownership of the Ford Motor Company to illustrate both points, and who can question that it does so effectually?

Two Classes of Wealth

Wealth is divided by economists into two general classes, to-wit, wealth for production and wealth for consumption. The first consists of lands, business structures, railroads, industrial equipment and all property used for production, trade or service purposes, while the second class consists of values in the form of goods or services which minister directly to the wants of the people, as, for example, food, clothing, fuel, dwellings and their furnishings, the family automobile, the services of the skilled professions, etc., etc.

The productive wealth exists solely for the purpose of producing values of the second class. Its value is in its capacity to do this and all of its value comes out in the flow of products. This class of property, being fixed, bulks large in any enumeration of the nation's wealth at a given time, while the continuing flow of resulting values, which constitutes the real distribution of benefits from the productive system, to a great extent escapes such enumeration. This division of wealth is seen in the latest official estimate of wealth in the United States, as given below.

Federal Trade Commission Survey

In 1923 the Senate of the United States by a resolution offered by Senator George W. Norris of Nebraska, directed the Federal Trade Commission to make an inquiry into, and to compile data concerning, the total amount of the chief kinds of wealth in the United States, the ownership, indebtedness public and private, tax-exempt property, and various details. As the basis of its inquiry, the Commission used the results of a similar inquiry made by the Census Bureau, which it checked by an independent inquiry. The census estimate was as of December 31, 1922, and the Commission reported on May 25, 1926. The two estimates appear in the Federal Trade Commission's report in parallel columns, as given below.* The second column shows the changes or additions by the Commission, while the blanks in it signify approval of the Census figures.

(000 omitted)

Item	Census Estimates (1)	Commission Estimates (2)
Real property and improvements, taxed (3)	$155,908,625	
Real property and improvements, exempt	20,505,819	
Land and improvements in streets and public roads:		
Rural public roads		$6,850,000
Streets, pavements, and public-owned underground structures in city streets		13,500,000
Other highway structures not in tax-exempt item		1,500,000
Movable equipment of farms and factories:		
Livestock	5,807,104	
Farm implements and machinery	2,604,638	
Manufacturing machinery, tools and implements	15,783,260	
Motor vehicles	4,567,407	
Public service enterprises:		
Railroads and their equipment	19,950,800	26,000,000
Street railways	4,877,636	7,000,000
Telegraph systems	203,896	285,000
Telephone systems	1,745,774	2,450,000
Pullman cars, etc.	545,415	700,000
Electric light and power stations privately owned	4,229,357	5,500,000
Other (4)	3,812,369	
Products, merchandise, etc.:		
Agricultural products	5,465,796	
Manufactured products	28,422,848	
Imported merchandise	1,548,666	
Mining products	730,296	
Furniture and personal effects	39,816,001	
Gold and silver coins and bullion	4,278,155	
Total	$320,803,862	$ 63,785,000
Census items unmodified		289,250,862
Total	$320,803,862	$353,035,862

(1) For continental United States, excluding Alaska.
(2) Net addition to census estimate is $32,232,000.
(3) Except real estate of public service enterprises.
(4) Includes pipe lines, shipping and canals, and privately-owned waterworks.

These estimates are of tangible values only. Bonds, stocks, paper money, and other paper representatives of credit or value, are not included, as they would be duplications.

It will be noted that real estate bulks very large. The first two classes comprise 55 per cent of the census estimate for all wealth, and when to this is added public roads, streets, etc., as calculated by the Commission, the total is $198,000,000,000, and the Commission says that if to this is added real estate owned by railroads and public utilities, not taxed by itself, the total would be about $230,000,000,000, or 65 per cent of the whole. However, the

*Note—"National Wealth and Income," Federal Trade Commission, 1926, page 28.

public and tax-exempt properties are owned by governments (Federal, State and local) or by educational, philanthropic or religious societies, not conducted for profit. "Real estate" includes land and improvements, which are estimated at about 60 per cent and 40 per cent respectively.

Accompanying details show that the taxed real estate included $63,000,000,000 for farm property (reduced from $78,000,000,000 in 1920)† and $72,000,000,000 for business and residential property; that agricultural wealth comprised about 18 per cent of the total, manufacturing and mining 14 per cent, railroads and other public utilities 12 per cent, government property 11 per cent. The remainder of the $353,000,000,000 total is employed in merchandising, numerous services, or represents personal property, etc. The Commission says that "doubtless the largest single share is that composed of town and city dwellings and personal effects—i.e., wealth possessed and used for personal necessities and enjoyment, which probably is not less than one-fourth of the whole."

These figures afford the ordinary person enough information to form his own opinion upon the distribution, or concentration, of wealth. He knows something about the distribution of real estate, both farms and city property, and these with household furniture and personal effects are the big items of all that is privately owned. The census gave the total investment in manufacturing in 1920 (including real estate) at $44,000,000,000, and in mining at $7,000,000,000. It is manifestly improbable that any small group owns a major portion of even the class of wealth enumerated in the table. For the most part, this is the class that is commonly discussed, listed in the probate courts, in schedules of wealth, and is the principal basis of bond and stock issues; in other words, *invested wealth.*

Land Ownership

Land has been especially prominent as a subject of anti-monopoly agitation, as seen in the single-tax proposal and the interest in it. Unquestionably land as property is in a class by itself, for the supply can not be increased, or even moved from place to place as readily as most other property. The area is limited, and in certain spots is in great demand and very high-priced, as, for example, on Manhattan Island. However, even here land holdings are not wholly free from competition.

The harbor of New York has given the adjacent land its value, and nearby water-fronts, not to speak of the Hudson River to Albany and many ports up and down the coast, compete with it. Furthermore, the land surface has almost unlimited competition from floor space up in the air and below the surface, provided by the engineering profession and other branches of the economic system. Also, the area of New York City and its convenient suburbs has been greatly increased by engineering specialists of numerous kinds, who have substituted other means of transportation for shanks-horses and horse-cars. Subways, tunnels, elevated railways, motor boats, motor cars and aeroplanes, with the aid of electricity and internal combustion, have spread the workers of New York far about and relieved the pressure on the Island. Plenty of proof is available that there is much real estate on Manhattan Island which over the last 50 or 75 years has made but a low return on its improvements after taxes and upkeep, including the gain or loss in selling values. Ownership is more widely distributed now than then.

As to land in farms, it certainly is not monopolized in this country, or yielding monopoly returns at present. Moreover, the demand for land may be limited by scientific treatment and crop cultivation, and also by the breeding of better plants and animals. It is more than possible that the farm production of this country might be doubled, and at a unit cost much below the present average, but it might not pay, for unless done very gradually it would increase the surplus, lower prices, and make no end of confusion. And finally, present estimates that, without immigration, the population of this country will not increase after about twenty-five years suggest another modification of land-monopoly prospects.

This is not intended to be a full discussion of land ownership, but only to say that it stands by itself—as appears from the fact that it always has borne the main burden of taxation—and should be discussed by itself; also to indicate that even the land situation affords evidence that the principle of competition is everywhere present. Any situation that looks like monopoly invites competition.

Consumption Goods and Services

Passing from real estate to the other forms of property listed in the table, there is little need for argument about the distribution of ownership. The remainder is only 35 per cent of the total. The largest aggregate of any group is that of "Furniture and Personal Effects," about $40,000,000,000, which obviously is distributed in the homes all over the country. Next in aggregate value comes the "Public Service Enterprises," at about $35,300,000,000. which is practically all represented by bonds and stocks outstanding. Next to real estate, the bonds and stocks of these and other business corporations have become the most common forms of investment, and necessarily so, because the business of the country is being increasingly done under the corporate form of organization. Even real estate, in the case of large buildings, is commonly owned by corpora-

†Note: This has been reduced again by the Department of Agriculture, and in the Statistical Abstract for 1935 is carried at $57,245,544,000.

tions organized for that purpose. Bonds are largely held by banks, insurance companies and others, in a fiduciary capacity for millions of people, while the stocks, particularly of the large companies, are widely held by individual investors. A compilation to June 1, 1936, of the number of stockholders in leading corporations, as reported at latest annual meetings, shows that, headed by the American Telephone and Telegraph Company with 657,000 names, and including all having 50,000 or more, 38 corporations had 5,249,970 stockholders. Of course many persons have stock in more than one corporation, but allowing for such duplications it remains true that the distribution is very wide. About 450,000 corporations are reporting to the Bureau of Internal Revenue, most of them locally owned. The "corporation" (originally known as a "limited liability company") was devised for the purpose of enabling persons of small means to cooperate in large enterprises. It has favored the distribution, rather than concentration, of ownership.

No estimate of the value of the *services* of the "public service enterprises" is given, because the enumeration does not include values of that kind. They are too intangible and fleeting to be rated as "wealth," although they are the very objects for which "wealth" is created, and play a great part in creating it. The railroads, directly or indirectly, render important services to all the people of the country. In 1934 the light and power companies served 20,265,890 homes, at an aggregate charge of $677,697,300, or an average of $2.80 per family per month. The number of families in the country in 1930 was 29,904,663 and of installed telephones 17,350,000 in 1935.

The estimate for the group headed "Merchandise, Products, etc." includes only inventories, or stocks on hand—not the total "flow" of consumable goods, which would be classed as *income*. Obviously 2 per cent of the population, or of the property-owners, could not themselves consume 50 or 60 per cent of the agricultural products, factory goods or imported goods, or take to themselves a similar share of any important class of products or services. Incidental to the fact that there were about 30,000,000 families in 1935, there were about 22,550,000 licensed passenger automobiles. How about the distribution of house-room, shoes, clothing, fuel, radios, newspapers, books, theatre seats, ball game tickets, drugs, drinkables and sundries? In short, what is the final distribution of all the goods and services moving in trade? Who, at last, gets them?

Insurance, Banking and Other Services

Life insurance companies perform a highly useful service, upon comparatively small invested capital, most of them being on the mutual basis, with surpluses accumulated from the excess of premium payments over losses and expenses. But they have assets of about $22,000,000,000, which does not appear in the wealth table, because their assets consist of claims upon property values already listed. The same is true of the services of savings banks, commercial banks, trust companies, building and loan associations and similar organizations. Bank deposits are received from the public and bank loans are made to the public: when both are included in a balance sheet they nearly cancel out, but their interplay is immensely serviceable to business. Neither deposits nor assets appear in the wealth table, because the real wealth behind them already is there.

Merchandising is a service, from popcorn stands and gasoline stations through all of the ramifications of trade and distribution, but appears in the table only to the extent of the property listed at the given date. The services of the learned and skilled professions which protect health and life, carry on scientific research and guide economic and social progress, are not listed in the wealth table, because they are "intangibles." The story of the construction of Boulder Dam and of its equipment illustrates the application of scientific knowledge, skilled services, labor and capital to obtain a broad distribution of benefits.

Real Distribution of Wealth Is in Consumption

The foregoing analysis of the Wealth table, and the brief account of the benefits derived from invested wealth through the agency of the economic system, lead inevitably to the conclusion that the table itself tells only a small part of the story of distribution. The real distribution of the values created by the economic system takes place at the point of consumption, where they are finally disposed of. In other words, the real and final distribution of wealth is in the form of consumption goods or services, the class of wealth which bulks very small in estimates of ownership.

Wealth that is saved to be employed in the creation of more values has not reached final distribution. It may be lost in the hazards of such employment, it may yield no returns to the owner for years, or the returns may be also invested, which would mean a further postponement of any consumption by the owner. So long as wealth is employed in the economic system, labor and the consuming public must share in the benefits and to a major degree.

The industrial equipment of this country has been built up from the savings and capital accumulations of the past. Present capacity for production, the accustomed rate of consumption or standard of living, and the level of compensation for all kinds of individual effort, are what they are by reason of this economic progress in the past. If the distribution of

wealth had been such as to promote greater current consumption and slower industrial development, present industrial capacity would be lower and the standard of living lower.

In all advanced countries in recent years there has been a nearer approach to equality among all groups of the population as regards food, clothing, home comforts, healthful living conditions, education, political rights, medical care, amusements and recreation, opportunities for advancement, etc., than ever existed before in the history of mankind.

Distribution of Income, 1929-1932

Available space has limited this article to a brief review of past estimates of Wealth holdings, and to an exposition of the difference between wealth in means of production and wealth in the goods and services that make the standard of living. We conclude this article with a reference to another official publication, this time treating of Income. On June 13, 1932, the Senate adopted a resolution offered by Senator LaFollette, of Wisconsin, requesting the Secretary of Commerce to submit a study and estimate of the national income and its distribution in the four years, 1929-1932. The Department of Commerce enlisted the services of the National Bureau of Economic Research, Inc., and aided also by the statistical services of the Government, submitted its report January 4, 1934.*

The term "national income" as used in the report means the net aggregate income of all the people. This was arrived at in two ways, viz.: first, by computing the selling value of all products and services entering trade, which is called "Income Produced." The other calculation, called "Income Paid Out," computes the payments of business for expenses, interest and dividends, treating them as income to the recipients, and tracing them to individual recipients. The two estimates check against each other. The report shows that in 1929 industry and all business "produced" a surplus of $1,672,000,000 over its disbursements, including dividends, but in the following three years it paid out, including dividends, a total of $23,198,000,000 in excess of values produced.

This was because corporations and business made disbursements both for operating expenses and dividends, in excess of income, by drawing upon previously accumulated reserves. In the case of operating expenses managements followed this policy for the purpose of maintaining their organizations, particularly the "key" men, and in anticipation of business recovery. In the case of dividends they were actuated by the fact that many stockholders were dependent upon them, and the maintenance of dividends in bad years had been one of the purposes for which reserves were accumulated. Although justified in the emergency, it is clear that this policy could not be continued indefinitely without wrecking the entire system.

*Note: See Senate Document 124, 73rd Congress, 2nd Session: Supt. of Documents, Government Printing Office, Washington, D. C. 20 cents.

The following table is made up from table 3 of the Senate document (page 14) and shows the division of the national income in 1929 and 1932, as between compensation for personal services and the several classes of property income, including what are called "entrepreneurial withdrawals." By this is meant withdrawals from personally-owned business, and includes net business income with personal earnings. This includes farming and all unincorporated business.

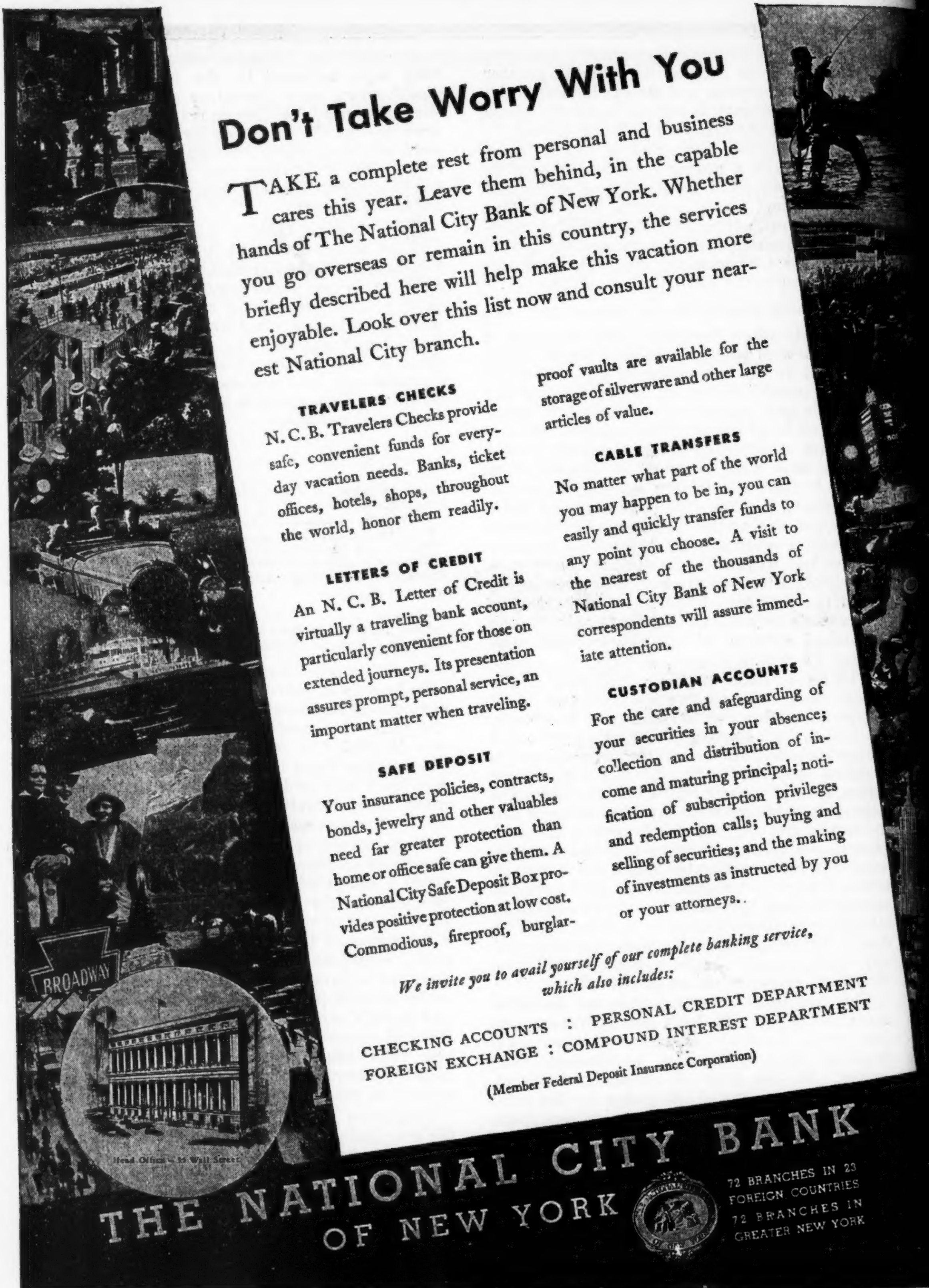
	Percentage of Total National Income "Paid Out"			
	1929		1932	
Labor (Wages and Salaries)....	—	65.1	—	64.5
Property Income:				
Dividends	7.4	—	5.3	—
Interest	7.0	—	11.2	—
Balance on foreign account*	.6	—	.8	—
Net rents and royalties	5.1	20.1	3.8	21.1
Entrepreneurial withdrawals..	—	14.8	—	14.4
		100.0		100.0

*Net balance on flow of property income; cannot be divided into dividends and interest.

It will be seen that wages and salaries plus withdrawals of entrepreneurs aggregated 79.9 per cent of the total national income in 1929, the year of record prosperity, and 78.9 per cent in 1932, the year of deepest depression. The total national income fell more than one-half from 1929 to 1932, but the change in distribution was comparatively small. All classes lost by the depression.

It should not be supposed that all of the interest and dividends went to rich persons. The small holdings of stocks are large in the aggregate and the income from them is a substantial part of the dividend item. Nor should it be supposed that income from interest actually increased during the depression. In fact, the aggregate receipts declined, but because interest-payments are of fixed amounts, and usually secured by property-pledges, this class of income fell off by a smaller percentage than other classes, thus becoming a larger percentage of the total. Actually interest charges have been greatly reduced.

This table shows for the two years named the distribution of all income derived from the economic system, including income from the wealth listed in the table on page 104. This is the real distribution of benefits from all wealth and labor combined.



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